

the

light report



January 2004

Volume 8; Number 1

Superintendent's Message: City Light Faces a Promising 2004



The coming year will be busy and eventful for City Light. We will reach some important milestones and make key decisions on rates and resources. The utility also expects to be transitioning to new leadership and familiarizing itself with a new superintendent and his priorities.

Jorge Carrasco has been visiting various groups of employees in January and will have spent two weeks in Seattle in preparation for and working with the City Council on his confirmation. Feedback from employees has been excellent. He's clearly a quick study and his deliberate, thoughtful approach has made his introduction an easy and successful one.

Early in the year, the City Light Advisory Board will issue its first report. Its recommendations could plot our course for the future. Meanwhile, City Light's Rate Advisory Committee will meet throughout the year and work with the utility, the mayor and the City Council on setting new base rates. That work will be done in conjunction with the 2005-06 budget.

City Light's financial recovery will make significant progress this year. We enter the year with a negative \$60 million balance in the City's cash pool, having paid off more than \$300 million in short-term, energy-crisis debt in 2002 and 2003. We expect to bring that cash-pool balance to zero by May. Sometime during the summer, we will reach \$30 million in operating reserves, triggering the new financial policies enacted by the City Council during the energy crisis.

Our financial position is tied to our resources. So far, it's looking like a good water year, with spring/summer runoff currently projected at 107 percent of normal. If natural gas prices stay high, we could realize excellent revenues from surplus sales. We will also face a decision around midyear on renewal or replacement of the power we get from the Klamath Falls combustion turbine.

Our Distribution Branch will present its Capacity Plan to the City Council in the first quarter. It will provide a long-term look at system improvements, including a possible new substation in South Lake Union. The utility is moving ahead with property acquisition for a new substation, and an announcement about that could occur early in the year. We will also

get busy around midyear with utility relocation and improvement work in support of Sound Transit's light rail project on Martin Luther King Jr. Way South.

On the environmental side, we expect to sign a contract to provide biodiesel to Washington State Ferries in the first quarter as part of our greenhouse gas mitigation effort. Other mitigation contracts are in the works. We will begin a major marketing of Green Power to commercial customers in March. We hope to see the opening of the North Cascades Environmental Learning Center near Diablo in the fall. We will continue our fish-friendly operation of our Skagit River dams and assess the damage to salmon habitat from last fall's floods.

Customer Service will procure and implement a planned software update for the billing system this year. And we await a Superior Court decision early in the year on the fallout from the Supreme Court streetlight decision.

As we move into spring, we will look forward to a Highway 20 cleared of rockslides and open for the Skagit Tour season. Employees at our Skagit Project have endured one of the more stressful fall and winter seasons in memory.

Another event to look forward to is the American Public Power Association national conference in Seattle in June.

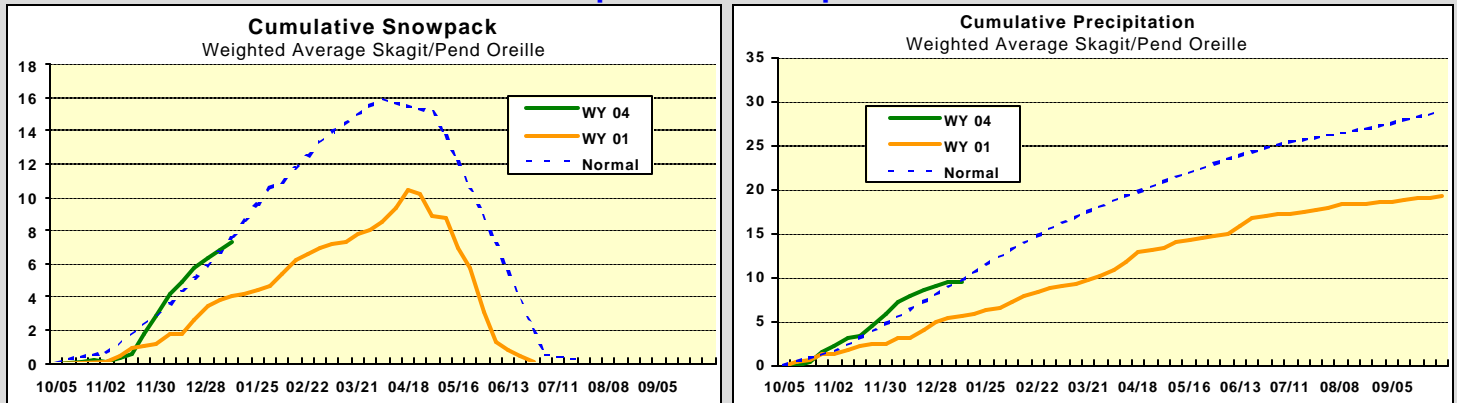
The items mentioned here are just a fraction of the tasks ahead of us this year. We look forward to tackling them with Mayor Nickels, the City Council, our Advisory Board, the Rates Advisory Committee, and our customers and stakeholders. *Jim Ritch, Acting Superintendent*

Bits and Pieces: News and Notes from City Light and the Utility Industry

- **Pioneer Square Alley Lighting:** An agreement was signed between Pioneer Square Community Association and Seattle City Light. Pioneer Square grants will fund the installation of alley lighting in approximately five new locations. Under this agreement, the PSCA is responsible for owning and installing the lights and maintaining an inventory of replacement parts. SCL is responsible for making the final connection to the electricity system and for maintaining the lights through a flat rate that will be billed to PSCA. The Department of Planning and Development facilitated this arrangement by allowing an alley permit. With this arrangement, a contractor needs to get

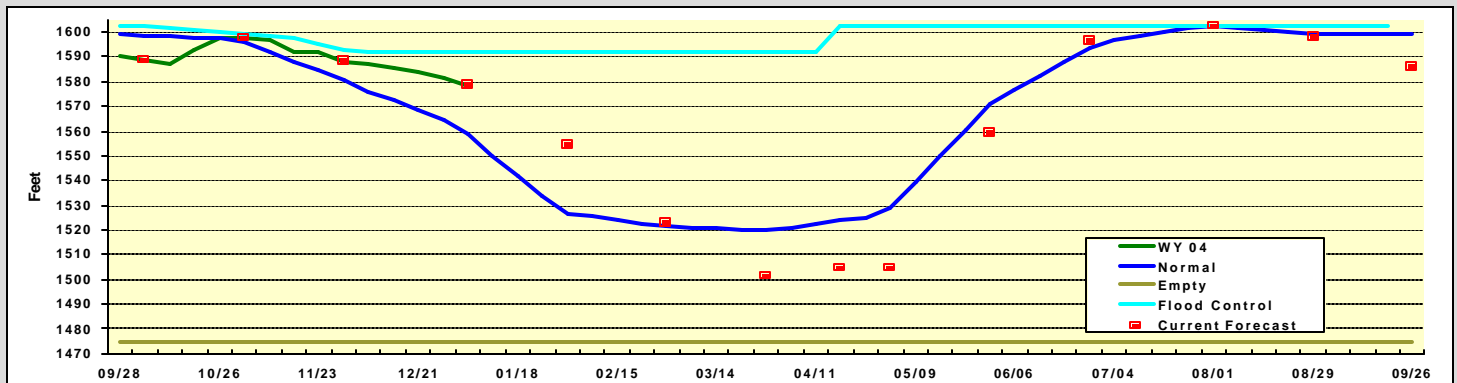
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- Water Resources as of January 4, 2004 - Snowpack and Precipitation



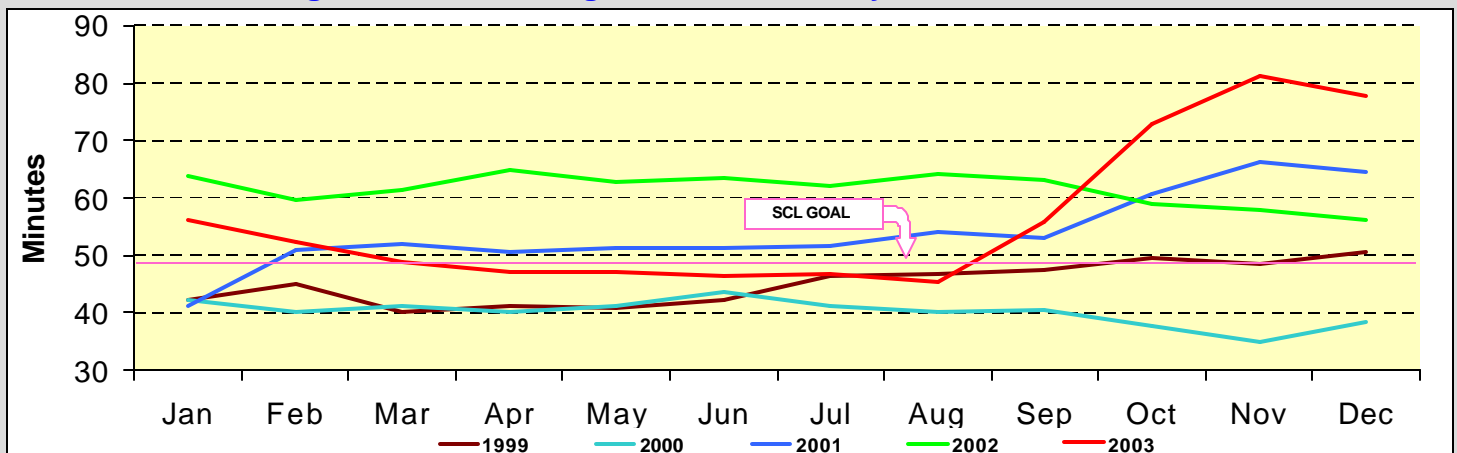
The weighted average of Cumulative Precipitation for the Pend Oreille/Skagit basins for the period October 1st, 2003 through Jan 4th, 2004 was 98% of normal. Weighted Average River Basin Cumulative Snowpack as of November 30th had reached 96% of normal. Several storm systems are slated to roll into the region beginning with the snow that hit Seattle Jan 6th. These systems should augment the snowpack already there and hopefully keep us on track for a normal year.

Ross Reservoir Levels



The goal at Ross Reservoir was to maintain elevation levels that would support flood control and optimum flows during the Chum Salmon spawning period Nov 15th through Jan 6th. Now that salmon spawning period is complete, we will work to ensure that the redds (egg nests) are kept submerged and to generate electricity for our customers with the stored water.

- System Reliability - Average Customer Outage Minutes, January 1999 – December 2003



SAIDI decreased by 3.4 minutes to 77.8 for December. On December 4th we experienced weather related outages that contributed about 10 minutes to SAIDI. Because those outages affected over 10% of our customers, it was declared a Major Event Day (MED) and was excluded from the 77.8 SAIDI figure. (Typically we experience 1 MED per year.)

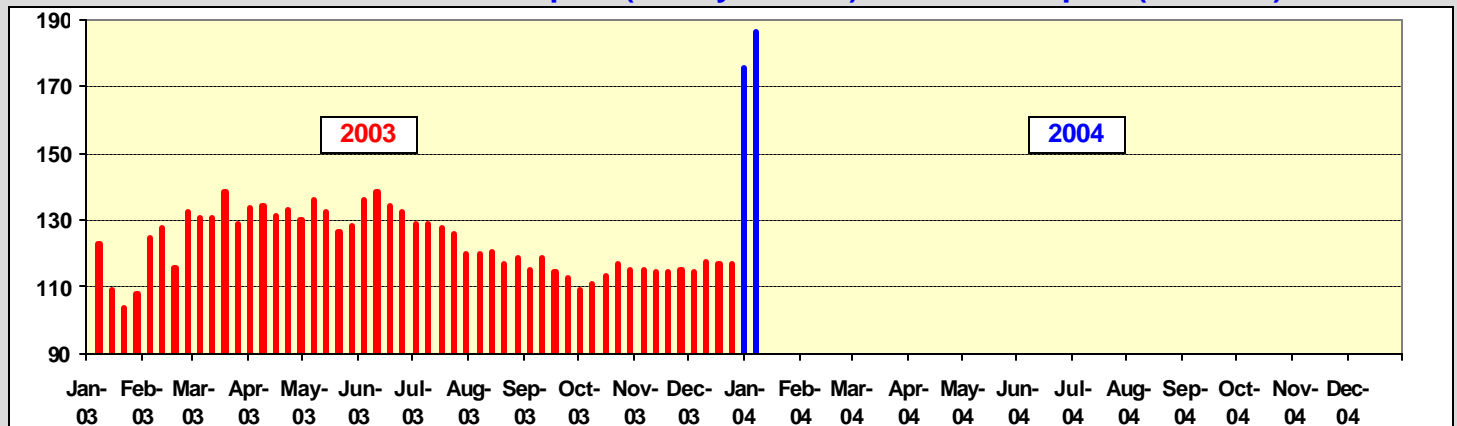
- Markets and Power Management -

Forward Power Prices, Current (1/5/2004) vs. Operating Plan

	High Load Hours			Low Load Hours		
	Operating Plan	Current	Change	Operating Plan	Current	Change
Jan 04	\$47	\$48	+\$1	\$40	\$42	+\$2
Feb 04	\$45	\$48	+\$3	\$38	\$41	+\$3
Mar 04	\$40	\$42	+\$2	\$34	\$38	+\$4
Apr 04	\$34	\$37	+\$3	\$27	\$30	+\$3
May 04	\$23	\$26	+\$3	\$17	\$17	\$0
Jun 04	\$22	\$22	\$0	\$16	\$16	\$0
Jul 04	\$35	\$37	+\$2	\$29	\$27	-\$2
Aug 04	\$44	\$46	+\$2	\$36	\$33	-\$3
Sep 04	\$42	\$44	+\$2	\$35	\$32	-\$3
Oct 04	\$42	\$44	+\$2	\$35	\$37	+\$2
Nov 04	\$40	\$42	+\$2	\$34	\$36	+\$2
Dec 04	\$45	\$47	+\$2	\$40	\$42	+\$2

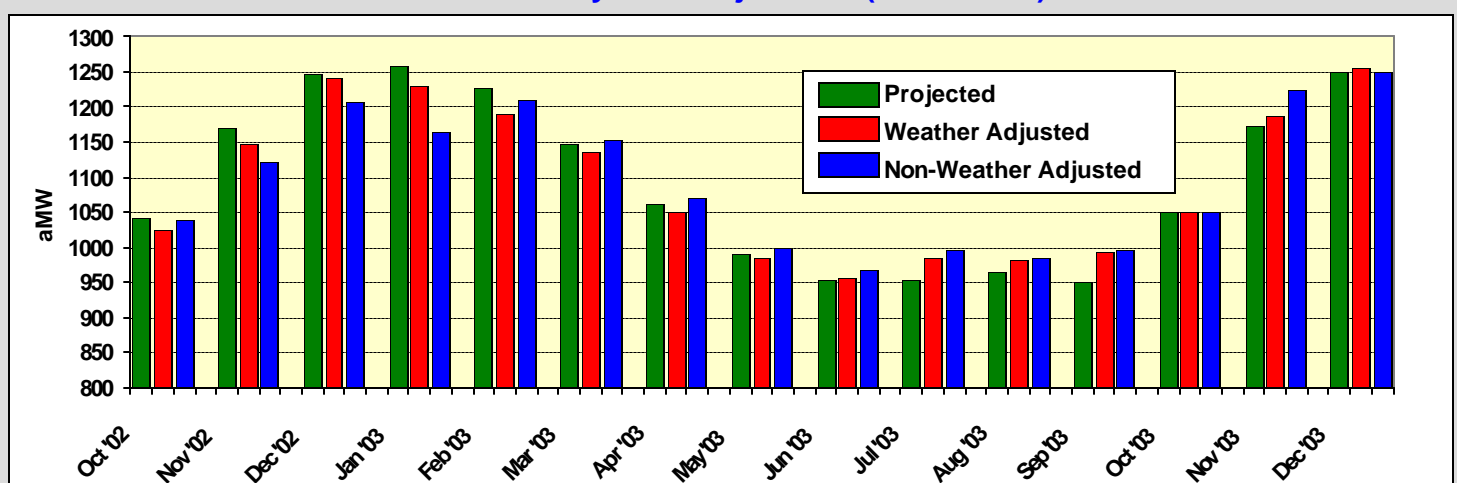
The table compares actual prices as of Jan. 5 with those assumed in the current operating plan. Natural gas prices are up sharply on peaking winter demand.

Market Value of 2003 surplus (as of year-end) and 2004 surplus (as of 1/8)



City Light netted \$116 million in wholesale revenue in 2003 (red), excluding sales of transmission and ancillary services, despite the relatively poor hydro conditions. The new year (blue) is shaping up to be more favorable both in terms of quantity and price.

Load History and Projections (as of 12/31)



Weather-adjusted load for 2003 is 1083.1 aMW, 0.7% higher than in 2002. All of the growth in load occurred in the last half of 2003.

only one permit per alley instead of seeking one for each property owner.

- **City Light Rates Advisory Committee (RAC):** Twenty-nine members were selected and approved by the Mayor's Office. The 2003-2004 RAC kick-off meeting occurred December 10. The group will meet at least once a month for the next year.

- **Low Interest Rates Save Money:** About \$100 million of City Light's outstanding debt is in the form of variable-rate bonds. The interest rate that City Light pays on these bonds is set for periods ranging from one week to a year. This allows City Light to take advantage of short-term interest rates, which are generally lower than long-term rates. With interest rates at unusually low levels in 2003, City Light paid \$980,951 in interest on an average of \$98.7 million of outstanding variable-rate bonds - an effective interest rate of slightly less than 1%! This is about \$4 million less than City Light would have paid if the bonds had been issued with fixed, long-term interest rates.

- **December 4 Storm Damage:** The Cedar Falls 115kV line suffered significant damage during this storm. Electrical lines were down over a 10 mile stretch from the dam to Puget's Fairwood Substation due to falling trees breaking concrete poles and insulators. Final repairs were completed December 9, two days ahead of schedule.

- **Automated Meter Reading Pilot:** SCL's Meter Strategy Group is planning to pilot automated meter reading in the South Lake Union/Denny Triangle areas. The group recommends selecting and piloting AMR technologies in new development involving potentially as many as 18,000 new electric meters and 600 water meters by 2020. SCL managers met with Puget Sound Energy senior management to learn their business case for AMR, and lessons learned from deployment experience.

- **Utilities should take the lead in setting electricity grid reliability standards rather than the Federal Energy Regulatory Commission (FERC),** the industry's main lobbying group said on January 9. FERC Chairman Pat Wood this week said the agency is preparing to unveil new rules that would require utilities to disclose when they violate voluntary rules set by the North American Electric Reliability Council (NERC), an industry group. "We're not talking about new reliability standards as much as giving those we have a sharper bite," said FERC spokesman Bryan Lee. Industry initiatives could include readiness audits for utilities, review of their compliance with standards, and surveys of needed tree-trimming projects around critical power lines, the group said.

- The Bonneville Power Administration finished building a new transmission line in the Puget Sound area just in time to help meet the extra demand that cold weather brings. The nine-mile, \$40 million Kangley-Echo Lake line runs through Seattle's Cedar River Watershed. "We got it into service just in time to meet record-high loads driven by the Arctic cold front," said BPA chief engineer Vickie VanZandt.

- The California Power Exchange has sued its former officers and board of governors over controversial decisions — including rich payments to executives — made as the state's power system melted down in late 2000 and early 2001. The Pasadena-based exchange also has accused former executives and board members of acting "in a desperate and irresponsible manner" by relaxing credit requirements, which helped pave the way for huge defaults by the state's two largest electric utilities. At the time, one of the complaints contends, the exchange's management was making hasty decisions out of a self-interested desire to keep the operation running rather than acting "for the benefit of consumers of energy or the stability of the energy markets" or the health of the state economy.

- Pristine snow turned into ice, then a mangy, charcoal-gray mess January 7, interrupting power to 45,000 SCL customers and hundreds of thousands of others in the Puget Sound area. The storm left most school kids with another day to play and thousands of passengers stranded at Seattle-Tacoma International Airport. Crews for Seattle City Light, Puget Sound Energy and Snohomish County Public Utility District worked all day to restore power when rain — after the snow — brought branches down atop utility wires. That night, City Light had brought back power to all but 4,300 of the 45,000 customers who lost electricity. Most of those without power were in Tukwila and White Center.

- It appears more state governments are providing grants, loans or other incentives for renewable energy development. "Many states have expanded and developed renewable energy resources due to their potential to reduce air pollution, control consumer energy costs and reduce dependence on foreign oil, along with the cost competitiveness of renewable sources due to improving technologies." That's the way the Council of State Governments put it in a report last year, noting that even in tight budget times it may make sense to devote funding to renewables. "A powerful and more recent driving force is that states have found that, aside from achieving the above effect, renewable energy can be used to stimulate local economies," the council said.

UPCOMING COUNCIL AGENDA ITEMS

Meetings of the Energy and Environmental Policy Committee have been cancelled through the end of January 2004.

Meetings will resume in February 2004.

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